



DEPARTMENT OF REVENUE

Herschler Building
2nd Floor West
122 West 25th Street
Cheyenne, Wyoming 82002-0110
E-Mail: dor@wy.gov
Web: <http://revenue@state.wy.us>

DAVE FREUDENTHAL, Governor
EDMUND J. SCHMIDT, Director

Telephone (307) 777-7961
DOR Main FAX (307) 777-7722
Property Tax FAX (307) 777-7527
Excise FAX (307) 777-3632
Mineral FAX (307) 777-7849
Liquor FAX (307) 777-6255

MEMORANDUM

(06-19)

TO: WYOMING COUNTY ASSESSORS

FROM: WADE W. HALL, ADMINISTRATOR, PROPERTY TAX DIVISION

DATE: 2/9/2006

SUBJECT: PERSONAL PROPERTY DEPRECIATION

Two significant issues regarding depreciation of personal property have arisen as the new CCI RealWare CAMA system is deployed in Wyoming counties. This memorandum, in the form of a *Directive*, addresses these two issues.

The following are quoted from Chapter 9 of the Department's current rules.

Section 6 (b) (iv) (D) states:

Depreciation shall continue to be applied until the residual value is reached. The residual value shall be considered to be 25% for all personal property, unless the property tax appraiser has collected sufficient market information to indicate a different residual value.

Section 6 (b) (v) (H) states:

"Trended original cost method" means the procedure for estimating replacement cost of property by trending its original, or historical cost with a factor from an appropriate construction cost index. Subsequent additions and replacements less deductions or removals must be considered. The method is used to appraise property for which comparable cost data are not available. For personal property, acquisition or original costs shall be trended to reflect current replacement costs by application of a cost trend factor developed annually by the Ad Valorem Tax Division. The result is replacement cost new, or rcn. *Trending of acquisition or original costs shall cease when the residual value has been reached except when refurbishing or maintenance changes the effective age* [emphasis added].

The personal property depreciation tables contained within RealWare are based on the Marshall Valuation Service cost manual, Section 97, "Depreciation – Fixtures and Equipment" table. In nearly every case, the depreciation "floor" of those tables is 80% depreciation, or 20% good. 20% good is the figure utilized as the "floor" in the RealWare personal property depreciation tables. This 20% good figure is obviously a lower "percentage good" than the 25% good enumerated currently in the Department's Rules. However, even as the Department's Rules are currently written, departure can be made if sufficient market information indicates a different residual value. It is the Department's view that the explanation contained in the Marshall Valuation Service provides sufficient justification to permit that departure for the counties converted to RealWare. That explanation states:

The general depreciation tables in this section were developed from *actual case studies of sales and market value appraisals* [emphasis added] and formed the basis for the extended life theory which encompasses a remaining life and effective age approach . . .

The data was then collected by type of construction and usage, plotted with similar typical total life expectancies, with curves computed for the groupings, for which sufficient data was available, for statistical reliability. From these curves, a matching family of empirical mathematical curves was found, from which the depreciation of any initial (when new) life expectancy could be computed under normal *market* [emphasis added] conditions . . .

A check of equipment depreciation by similar procedures showed that portions of the family of curves, which was used for nonresidential properties, were suitable as an indicator of that depreciation [emphasis added].

While we believe the above language gives ample reasoning from a nationally recognized appraisal source to justify the use of the 20% floor for depreciation under current Department Rule, the Department intends to pursue emergency rulemaking to replace the language in Chapter 9, Section 6 (b) (iv)(D) to state:

Depreciation shall continue to be applied until the residual value is reached. The residual value shall be considered to be *no less than 20%* [proposed revision italicized here] for all personal property, unless the property tax appraiser has collected sufficient market information to indicate a different residual value.

Nothing in this directive precludes the assessor from utilizing a depreciation "floor" of something different than the RealWare tables (or the "legacy" system tables for those counties not yet converted) for personal property, if the assessor has sufficient market justification for such a deviation. The assessor, of course, must bear responsibility to defend such a deviation in the case of an appeal.

As to Section 6 (b) (v) (H) of Chapter 9, the methodology outlined therein has been specified in Rule for a number of years, is based on generally accepted appraisal practice, and is commonly used in many jurisdictions across the country. The Department has no current plan to

significantly revise any wording that would change the current trending requirements enumerated in Section 6 (b) (v) (H) for personal property. As such, assessors should adhere to the trending requirement as currently contained in this section, noting particularly the requirement to end trending once residual value is reached. The Department is aware that a selectable option in RealWare may allow the assessor to deviate from this requirement—the presence of the option does not authorize a deviation under the Rule, however.

If you have any questions regarding this directive, please feel free to call Ken Uhrich, Appraisal Services Group Supervisor (307-777-5232); David Chapman, CAMA/GIS/IT Group Supervisor (303-777-5289); or me (307-777-5235).

Thank you.